No Matter The Volatility, We Keep Adequate Liquidity: Cosmo First CFO

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Neeraj Jain outlines the company's approach to liquidity management, foreign exchange hedging and interest rate planning

As India competes with China on price and quality in flexible packaging exports, Neeraj Jain, Group CFO, Cosmo First, breaks down where the actual cost advantage lies and where it does not. In this conversation, he also discusses the company's foreign exchange risk policy amid shifting tariff regimes, its renewable energy and sustainability commitments, and the areas of finance where automation has already taken hold.

If you were to build a finance function from the ground up today, what is the one element you would prioritise adding, and what is the one practice or aspect you would choose to eliminate?

From the traditional finance function to today's context, technology plays a much larger role. If I had to rebuild the function from the start, technology would be given a far bigger role, and a lot more value would be created through greater use of technology.

On the other hand, I would like to remove the "sir culture" or "madam culture". In today's context, you may want a slightly more informal structure across the organisation and within the finance department. That is the kind of culture I would prefer.

Many CFOs today come up through accounting or treasury. You've also worked in internal audit and risk. How has that background shaped the questions you ask before signing off on a big decision?

If you work, particularly in the initial phase of your career, in risk management or internal audit, it gives you the opportunity to look at the macros across various departments in the organisation. Being part of risk management, you go to the finance department, the production department, sales and so on. So you get an overview of how a large organisation works, and that broader understanding is something I picked up early in my career, which has stayed useful even today.

One of the key roles of a CFO today is to manage risk. So, when a decision comes up, having a risk management background helps you ask the right questions. For instance, if there is a new capital expenditure proposal, you ask questions from a risk management perspective, such as what the market is for that specific product category and how the risk related to the new product category can be better managed. That exposure across functions has helped me ask the right questions, even today.

India has become one of the world's largest exporters of certain plastic packaging films, competing directly with China and Southeast Asia on price and quality. From a finance lens, what's the real cost advantage India has here, and how long can it last?

I'll talk more specifically about flexible packaging. The BOPP segment of the flexible packaging industry is close to a 10 million metric tonne industry globally. Almost 40 per cent of the supply base is with China, and India is second, with close to 10 per cent of the world's supply base.

Unlike industries such as cement or steel, where there is a significant cost advantage from very large-scale production, particularly in China, our industry does not work that way. The predominant cost for our industry is raw material and, since pricing is on an import parity basis, the raw material cost is largely the same for China and India, accounting for close to 70 per cent of the cost of production. The second-largest cost is power, where China has a slight advantage over India. The third-largest cost is labour, where India has the edge over China. So, to summarise, the cost of production in India and China does not differ much in our kind of industry.

Having said that, as an organisation, we are selling more and more speciality, value-added products. Almost 80 per cent of our exports are value-added products, a segment where China's presence is very insignificant. That means we do not directly compete with China for most of our export product categories. We are a company focused on speciality, high-margin products, where China poses no direct competition.

With global trade fragmenting and tariff regimes shifting quickly, an export-heavy manufacturer faces currency and policy risk on every shipment. How has your approach to hedging and foreign exchange management changed over the past two or three years?

We export to more than 100 countries today, so it is a very large and diversified base to address. Our single largest exposure to one country is 10 per cent of our top line. That diversification helps us manage risk better if a new tariff suddenly comes into effect for a specific country.

On top of that, as a company, we have a board-approved foreign exchange risk management policy, which we implement on an ongoing basis. Under this policy, whatever the short-term exposure of the company is, we try to run it on a fully hedged basis. Our long-term exposures carry a natural hedge, since we are an export-oriented company. So we largely try to run on a hedged basis from a foreign exchange risk management perspective, and, as I said, our export portfolio is also very diversified from a country perspective.

Global packaging brands are increasingly asking their Indian suppliers to prove sustainability credentials before signing long-term contracts. How much of your capex today is being driven by customer sustainability demands rather than by growth alone?

As an organisation, we are taking a number of new initiatives on sustainability. Last financial year, 50 per cent of the power we used came from renewable sources, and we are targeting an increase to 70 per cent. Across all our plants in India, 70 per cent of our power will come from renewable sources, either solar or wind. We are also undertaking extensive rainwater harvesting. These initiatives are helping us significantly on the sustainability front. We have also been rated by CARE Ratings on sustainability, with a good rating.

From a product standpoint, we are trying to produce more mono-layered structures, which, in this industry, means fully recyclable structures. This helps the environment and supports the industry's broader proposition. So, with a large share of mono-layered structures and continued innovation in new products such as COSMO, we expect to gain an edge over time, more so because of these sustainability initiatives.

Manufacturing finance teams often sit far from India's big financial hubs, working out of plant towns rather than metros. How has that shaped the kind of talent you're able to attract and build?

As a company, we have always believed in investing in people. Frankly, for the long term, it does not matter whether the larger part of your talent pool sits in a metro or a non-metro location. If you have the right people and invest in them, you reap the benefits. In tier-two and tier-three cities, one key advantage is that you generally get better stability and, therefore, lower attrition. That is what we are trying to build on: investing in people and maintaining low attrition, which helps us in the long run.

Interest rate decisions from the Reserve Bank of India ripple through every manufacturing company's cost of debt and working capital. How closely do you track the RBI's policy signals when building your own financial forecasts?

The Reserve Bank of India (RBI) announces its monetary policy on a bimonthly basis, and we refer to each policy announcement closely. We look at the projected interest rate and, when we prepare the budget at the beginning of the year, we always factor in the interest rate assumption we should use.

Having said that, even if there is a sudden spike in interest rates during the year, we, as a company, always keep adequate liquidity available so that temporary ups and downs in interest rates do not become a major concern. Keeping extra liquidity on hand and tracking the credit policy closely has been our key strategy.

Finance teams globally are adopting AI tools for forecasting, reconciliation and reporting. What's one part of your finance function that's already been meaningfully changed by technology, and what hasn't budged at all?

The way we look at AI in the current context, it is complementing in nature, complementing the existing manpower. That means it improves the productivity of the person, the function, the department and the organisation. That's the role we currently see for AI: it need not replace manpower, it is largely meant to improve productivity.

We actually started this journey well before the recent surge of interest in AI. We began automating bank reconciliation almost four years ago, using various robotics techniques, and all our bank reconciliations have been automated since then. More recently, we have been working on automating supplier invoice processing using AI. We also see a lot of opportunity on the credit control side and are working on applying AI there as well. So vendor reconciliation, bank reconciliation and credit management are a few areas where we expect to be able to use AI much faster going forward.